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FM AMEMBASSY MINSK
TO RUEHC/SECSTATE WASHDC 6719
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEATRS/TREASURY WASHDC
RUEHVEN/USMISSION USOSCE 1759
RUEHBS/USEU BRUSSELS
RHMFISS/HQ USEUCOM VAIHINGEN GE
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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 001020

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E.O. 12958: DECL: 12/13/2017
TAGS: [ECON](#) [EFIN](#) [EAID](#) [PINR](#) [BO](#)
SUBJECT: EBRD ON MICROFINANCE, POWER PROJECTS IN BELARUS

REF: 06 MINSK 689

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

1. (C) The EBRD signed a charter to open a microfinance bank in Minsk Belarus December 12. The bank, with seven investors and start-up capital of USD 7 million, needs 19 permits to begin operation but could be ready for business by mid-2008. In a briefing for the Ambassador, EBRD representatives said that the GOB was seeking private investment for coal-burning power plants, alternative fuel projects and municipal services. End summary.

EBRD Adds to Belarus Microfinance Work

2. (C) Michael Davey, EBRD Director for the Caucasus, Moldova and Belarus, briefed the Ambassador and emboffs following the December 12 charter signing for Minsk's new EBRD-sponsored microfinance bank, the Belarusian Bank for Small Business. According to Davey, the bank has seven shareholders, including two IFIs, EBRD and IFC, and five private entities -- KfW, Commerzbank of Germany, Swedfund, FMO, and U.S.-based Shore Capital. The bank's initial capitalization is 7 million USD. Shore Bank International will operate the bank. EBRD Small Business Group Director Chikako Kuno noted that while the bank has been chartered, it still needs 19 permits before it opens for business, hopefully by mid-2008.

3. (C) Kuno told the Ambassador that the new microfinance bank project builds on earlier work done by EBRD in the sector in Belarus. Through technical assistance and loans to two private banks over USD 85 million in small business loans has been distributed to small and medium sized enterprises, with the average loan approximately USD 6000. This project was expanding to include the participation of an additional three private banks; Kuno said that previous experience showed that the EBRD microfinance bank and microfinance EBRD provides through existing private banks would be in creative competition with each other, with the new bank's efforts further encouraging private banks to meet the credit needs of SMEs. Davey and Kuno noted that technical assistance to train loan officers in private banks would end in early 2008 without the infusion of an addition 600,000 USD and they asked the Ambassador for USG assistance to continue this project. The Ambassador noted that USG assistance policy was to focus on de mocracy and the independent media, but promised to raise the

issue with Washington.

Semashko Visits EBRD London HQ, Talks Focus on Energy

14. (C) Davey told the Ambassador that Deputy Premier Vladimir Semashko had recently visited the EBRD's London headquarters for consultations. Semashko told the EBRD that Belarus was interested in private investment in the areas of power generation and municipal services. According to Davey, Semashko said the GOB planned three new coal-fired power plants that would be fueled by coal from Poland, and it was open to private investment in perhaps all three of them. (Note: According to Davey, Semashko did not raise Belarus' plans to construct a nuclear power plant. End note.) Davey said Semashko was also interested in private investment for alternative fuels and renewable energy, like biomass and hydroelectric power. Davey noted that the EBRD would send regulatory and power sector specialists to Belarus in January to evaluate if Belarus' legal and regulatory environments would support public private partnerships in the power sector. Semashko also reportedly sought private investment for municipal services such as solid waste disposal and some water projects.

Comment

15. (C) The search for private investment for key "energy independence" projects demonstrates just how low the GOB is on cash. We agree with Davey's assessment, however, that although the GOB declares its openness to private investment, it is probably not prepared for the transparency and the open

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tender process necessary to attract serious Western funds for these projects.
STEWART